

British Columbia Ministry of Finance

Post-Payment Review Governance

Background and Context:

Prior to the introduction of technological controls, manual pre-payment reviews have been the tools commonly utilized by most public sector bodies to confirm the appropriateness of payments before they are made. The process involves reviewing the expenditure authority approval to ensure the expenditure was approved by an individual with the authority to do so, confirming the receipt of goods and services (contract performance), and ensuring that the invoice matches the purchase order, and is appropriately coded. Once these are confirmed OK-to-Pay approval is applied and the expenditure is released for payment. This process employed significant people and technology resources and still resulted in payment errors.

A review of the accounts payable process is ongoing. Recommendations by Hackett Benchmarking Solutions Group, the Best Practices Steering Committee and working groups supported a move from pre-audit of expenditures to post-payment compliance review using a risk-based approach. Based on these recommendations, the Payment Review Office (PRO) was established in November 2001 as part of OCG's overall governance function, and provides a comprehensive risk-based compliance review program to improve the efficiency and economy of internal controls.

Post payment reviews or audits perform the same basic confirmation tasks as pre-payment reviews, but utilize a risk-based approach (Enterprise Risk Management Model), through statistically valid sampling methodologies to confirm expenditures were made according to policy.

Treasury Board established the PRO, through a reallocation of Ministry of Finance resources. For 2004 resources have been transferred from ministries to support an expanded mandate. As a governance office, PRO is part of an expenditure Vote operating on neither a self-funding nor cost-recovery basis.

Program Mandate

As a governance organization within the Office of the Comptroller General, the Payment Review Office takes a systemic approach to improving policy compliance and reducing financial loss to government by:

- Testing for, and reporting government and expense authority compliance with financial and procurement policies and legislation by replacing selected pre-payment reviews with post-payment reviews based on statistical sampling methodologies;
- Providing custom reviews and reports where warranted;
- Reducing the cost of internal controls by implementing risk management models;
- Identifying how, and assisting central agencies and ministries, to strengthen the internal control framework; and
- Recommending improvements to financial policies, training and systems in order to improve compliance through both targeted and broad systemic change.

Post-Payment Review Approach and Methodology

PRO employs a risk-based analysis of expenditures to employees and vendors using the government's enterprise risk management. Proven statistical sampling methodologies including dollar unit sampling, judgemental and attribute sampling are employed. The methodology used and population reviewed is dependent upon payment type, financial controls, political sensitivity, known error rates; history of non-compliance with policy and dollar amounts. Audit programs and individual audit items are designed, developed, implemented, and maintained using a risk assessment key.

Population data is taken from the government's financial data warehouse and brought into Audit Command Language (ACL) software, a proven and recognized general audit software package. ACL is the primary electronic tool utilized to select samples. Policy compliance reviews of payments are then completed using an Oracle database system developed by the Payment Review Office. Documents are electronically requested from ministries via email, reviews are completed, results analysed, documents returned to ministries, and results and recommendations reported out via the government's intranet.

To date (2003/04 and 2004/05 fiscal years), dollar unit sampling has been primarily utilized because it allows each dollar of expenditure an equal opportunity of being selected within the population. It gives a statistical conclusion as a dollar amount. Findings can be projected to the population and meaningful financial results can be provided to stakeholders. It was chosen because of its efficiency, reliability, and overall appropriateness for post-payment review audit.

PRO has developed an Integrated Statistical Sampling Approach and methodology that meets its objectives of reporting both a statistically valid measure of dollar loss to government as well as a statistically valid measure of the rate of compliance with government policies. This methodology has been assessed and approved as statistically valid by a UBC academic and statistical sampling expert. This methodology will be primarily used in the review of government payments for the 2005/06 fiscal year.

As PRO moves forward and becomes more strategic in its review of payments and payment types, continued use of judgemental and attribute sampling will be used to increase government's confidence in financial and procurement policy compliance. PRO is also determining the viability and potential opportunities that continuous controls monitoring might afford in providing further confidence and reducing risk of dollar loss to government.

Statistical sampling requires decisions regarding confidence level, materiality and population. PRO uses a confidence level of 99%. This is the most conservative confidence level and provides assurance that the sample examined is representative of the entire population. Materiality of 5% for both dollar unit and attribute sampling is used for cross-government samples.

Current Reviews

Currently post-payment reviews include monthly reviews of travel payments through I-Expense; and quarterly reviews of all other employee payments. Vendor reviews are performed monthly.

In addition, with the implementation of I-Procurement, the Payment Review Office increased and targeted review of payments made by ministries once they moved to the new control framework to ensure appropriate controls were in place and to identify areas where controls and processes might be improved.

As the Payment Review Office continues to increasingly focus on invoice and contract financial policy compliance and supports reviews for procurement policy compliance, increased attention is being paid to the application of expenditure authority, and expenditure authority compliance with procurement and financial policy compliance. PRO is working with ministries and central agencies to ensure PRO recommendations are tracked, monitored, and implemented.

Post-Payment Review and Sanctions - Integral to the Financial Control Framework

PRO is a necessary financial control, providing a “threat of detection” to encourage compliance. True value to government is also provided by follow-up on issues and PRO's systemic approach to achieving policy compliance. The efficiency and effectiveness of the operations of government are improved through this compliance work, including controls that offer the “threat of detection”.

If the PRO is to be effective and maximize its value to government, the position of post-payment review within the three-step process must be confirmed. The PRO must have:

- A statistically based post-payment review (“threat of detection”) program,
- Sanctions that are actively applied, and
- The ability to achieve policy compliance by working with Ministries and Central Agencies (i.e. FMB, IAAS, CAS) to attain systemic change (i.e. changes to policies and improved systems controls, training, education).

Currently, the threat of detection is real and there are provisions for penalties, however, the penalties are relatively minor and rarely imposed. It is recommended that government examine existing policy to ensure the penalties for non-compliance reflect the seriousness of failure to comply with policy. It is further recommended that Treasury Board confirm its direction that these penalties be fully applied when violations of policy are detected.

There is currently a perception in government that there is little risk the existing penalties for lack of compliance will be applied, when violations are detected. This makes the policy compliance review function performed by the PRO extremely important, as it is currently the only means for improving compliance and ensuring adherence to policy.

The PRO, in its work with the ministries and central agencies, is the vehicle through which government will increase attention to policy, improve systems controls, and educate those involved in financial processes and systems as to the importance of compliance and financial controls, both the corporate benefits of compliance and the personal risks associated with non-compliance.

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Original Document: January 26, 2004

Updated Document: August 17, 2005